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The Impact of Student Loan Debt on Older Adults and their Retirement

by

Ryan A. Stuart

A creative component submitted to the graduate faculty
in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE

Major: Human Development and Family Studies

Program of Study Committee:

Jonathan Fox, Major Professor
Suzanne Bartholomae
Megan Gilligan

Iowa State University

Ames, Iowa

2019

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ACKNOWLEDGMENTS

I would like to thank my committee chair, Dr. Jonathan Fox, and my committee members, Dr. Suzanne Bartholomae and Dr. Megan Gilligan, for their guidance and support throughout the course of this project.

In addition, I would also like to thank my friends, colleagues, the department faculty and staff for making my time at Iowa State University a wonderful experience. I want to also thank my spouse, Keira, for her patience and continued support throughout my program.

ABSTRACT

The purpose of this creative component is to provide a comprehensive review of the literature that focuses on how student loan debt affects older adults and their retirement, with each section covering a specific aspect of the issue. The following collection of articles were written by government agencies, academic experts, and financial professionals, and they are directly related to the financial burden older adults experience from their student loan debt.

Keywords: student loans, older adults, retirement, debt, ParentPLUS loans

INTRODUCTION

Considerable media attention is paid to the overall amount of student loan debt held by consumers in the United States. The impact of this debt is far-reaching, and it is affecting an unlikely population: older adults. Existing research notes that older adults typically struggle with their household finances due to high medical expenses and the lack of retirement savings, and more recent studies are finding that some older adults also carry significant amounts of student loan debt into retirement. For adults age 50 and older, the majority of their student loan debt was obtained for someone other than themselves, and other forms of debt, such as home equity loans, may also be used to pay for the educational expenses of their children and grandchildren (U.S. Consumer Financial Protection Bureau, 2017).

Excess student loan debt can be responsible for various household socioeconomic issues such as the increased risk of delinquency, default, and bankruptcy, or reporting lower levels of emotional well-being and an overall decrease in net worth (Elliott & Lewis, 2015). All of these factors may require older adults to work much longer than they anticipated (Handwerker, 2011), or live with a significantly reduced amount of financial resources in retirement (Jeszeck, 2014).

STUDENT LOAN DEBT AND OLDER ADULTS

The beginning of this section focuses on the data collected by two government agencies: The Federal Reserve and the U.S. Department of Education. While the U.S. Department of Education is responsible for the vast majority of student loans, the Federal Reserve is able to obtain information regarding other forms of debt that can be utilized to pay for educational expenses. These two agencies are the primary data source for most studies

involving student loan debt. The next two government agencies, the U.S. Consumer Financial Protection Bureau and the Government Accountability Office, are considered to be “watchdog” agencies. The primary responsibility of the CFPB is to protect the financial interests of consumers in the U.S., and the GAO is an auditing agency responsible for the oversight of federal programs. Since nearly all student loans are federally funded, it makes sense to include the data and research from these four specific agencies.

Board of Governors of the Federal Reserve System (U.S.). (2019, April 5). Consumer Credit – G.19. Retrieved from <https://www.federalreserve.gov/releases/g19/current/g19.pdf>.

The Federal Reserve System is the independent, central banking agency responsible for monetary policy and financial stability in the United States. During the first week of every month, The Federal Reserve releases its Consumer Credit report, which is a snapshot of the various outstanding debts held by American consumers. Total outstanding student loan debt, a number that also includes private student loans from non-governmental financial institutions, reached \$1.569 trillion by the end of 2018. This number represents a 5.37% increase from 2017 (\$1.489 trillion). Student loan debt also surpasses total revolving credit (credit cards) by approximately \$500 billion and auto loans by approximately \$400 billion. Unfortunately, the Federal Reserve data does not provide statistics based on demographic information, but the data is still useful primarily due to the inclusion of over \$100 billion in private student loans and the ability to compare student loans with other forms of consumer debt.

Federal Student Aid. (2018, September 30). Federal Student Loan Portfolio by Age.

Retrieved from <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>.

The U.S. Department of Education's Office of Federal Student Aid is responsible for the management of the federal student loan portfolio, which is comprised of the following loans: Direct Loans, Federal Family Education Loans (FFEL), and Perkins Loans. While the Federal Reserve statistics offer more accurate student loan debt amounts for American consumers as a whole, the office of Federal Student Aid provides quarterly data focusing on each type of federal student loan and the associated borrower's demographic information.

The Federal Student Aid office releases several reports categorized by loan type, age, debt size, location, and school type. Three of these reports provide a significant look into how the student loan debt crisis is impacting specific groups of individuals, particularly those in the pre-retirement (50-61) and retirement (62 and older) age groups. All figures are current as of September 30, 2018, and the loan amounts include outstanding principal and interest balances.

Federal Student Loan Portfolio by Borrower Age

Data Source: Enterprise Data Warehouse

		50 to 61		62 and Older	
Federal Fiscal Year		Dollars Outstanding (in billions)	Borrowers (in millions)	Dollars Outstanding (in billions)	Borrowers (in millions)
2018	Q1	\$204.0	5.7	\$57.9	1.8
2018	Q2	\$210.3	5.8	\$60.5	1.8
2018	Q3	\$213.6	5.8	\$62.5	1.8
2018	Q4	\$219.4	5.8	\$65.2	1.9

Figure 1 *Federal student loan portfolio by age*

Figure 1 describes the overall amount of student loan debt held by adults age 50 and older. As of September 30, 2018, approximately 7.9 million pre-retirees and retirees held

\$284.6 billion in outstanding federal student loan debt. These totals represent an average student loan balance of \$36,000 per borrower.

Federal Student Loan Portfolio by Borrower Age and Debt Size

Data Source: Enterprise Data Warehouse

Debt Size	50 to 61		62 and Older	
	Dollars Outstanding (in billions)	Borrowers (in millions)	Dollars Outstanding (in billions)	Borrowers (in millions)
<5K	\$2.63	1.07	\$1.00	0.44
5K to 10K	\$6.83	0.92	\$2.35	0.32
10K to 20K	\$15.71	1.09	\$5.02	0.35
20K to 40K	\$30.42	1.06	\$9.00	0.31
40K to 60K	\$27.84	0.57	\$7.79	0.16
60K to 80K	\$26.08	0.38	\$6.97	0.10
80K to 100K	\$20.01	0.22	\$5.48	0.06
100K to 200K	\$55.53	0.40	\$15.89	0.11
200K+	\$34.38	0.12	\$11.68	0.04

Figure 2 *Federal student loan portfolio by age and debt size*

While the previous chart provides numbers for overall student loan debt, Figure 2 breaks down outstanding student loan debt for each age group by its size. Many pre-retirees and retirees hold relatively low amounts of student loan debt; however, approximately 12% hold over \$80K, and 2% have an incredible \$200K+ in outstanding debt.

Portfolio by Loan Type

Data Source: National Student Loan Data System (NSLDS)

Federal Fiscal Year		Parent PLUS	
		Dollars Outstanding (in billions)	Recipients (in millions)
2018	Q1	\$83.7	3.5
2018	Q2	\$87.7	3.5
2018	Q3	\$86.7	3.4
2018	Q4	\$89.9	3.6

Figure 3 *Federal student loan portfolio by loan type*

Unfortunately, this figure does not provide the borrower's age, but it does show the extent of parental borrowing. As of September 30, 2018, parents held an average of \$25,000

in ParentPLUS loans for their children. This number does not include private student loans, home equity loans, or credit cards used for education funding.

Jeszeck, C. A. (2014). Older Americans: Inability to repay student loans may affect financial security of a small percentage of retirees. *Government Accountability Office* (Washington, DC). Retrieved from <https://www.gao.gov/assets/670/665709.pdf>.

Due to concern surrounding the financial security of older Americans approaching retirement, the U.S. Senate's Special Committee on Aging tasked the U.S. Government Accountability Office with studying the issues older adults are facing with their student loan debt. Unlike other forms of consumer debt, student loans cannot be discharged by filing for bankruptcy, so borrowers must continue making payments, regardless of their financial situation, or risk becoming delinquent or defaulting on the loan. This is particularly difficult for older adults who already rely on a limited income.

Current data suggests older adults are defaulting on their loans, and they are carrying much higher balances into retirement. Once a borrower becomes delinquent on their student loan debt, they have 425 days to arrange payments before the loan goes into default and is possibly transferred to the U.S. Department of the Treasury for recovery and repayment. The Treasury may withhold certain amounts from the borrower's tax return, wages, and even their Social Security retirement payments, also known as an offset. In 2013, the GAO identified approximately 33,000 older adults with offset Social Security retirement benefits due to their federal student loan debt.

The GAO identified three possible reasons why older adults heading into retirement are maintaining high balances on their student loans. Since many student loan repayment terms are often nearly as long as mortgage repayments, older adults may still be paying off their own loans from college. Older adults may also acquire student loan debt due to a career change or furthering their education in the middle of their careers. The third reason is to pay for their children's education through co-signing or ParentPLUS loans.

U.S. Consumer Financial Protection Bureau. (2017). Snapshot of older consumers and student loan debt. Retrieved from <https://www.consumerfinance.gov/data-research/research-reports/snapshot-older-consumers-and-student-loan-debt/>.

The Consumer Financial Protection Bureau was created after the Great Recession with the goal of educating consumers and protecting their financial interests. The CFPB conducts regular financial health and well-being studies, and their "Snapshot of older consumers and student loan debt" report is particularly useful for this research topic. The CFPB found that the number of older adults with student loan debt quadrupled from 2005 to 2015, and this age group is the fastest growing in the student loan market. The report also notes that the majority of older adult student loan debt belongs to their children, or grandchildren, and not their own education. This distinction is important, because ParentPLUS loans carry higher interest rates than Direct undergraduate loans making them more expensive for the borrower.

The inability to pay for these loans is also becoming more apparent. The number of older adults who are delinquent on their student loans increased by 5.1% from 2005 to 2012, and a growing number are having their Social Security benefits offset to help with repayment.

Receiving less from Social Security is an issue for a group who already reports skipping necessary medical attention and having less in their employer-sponsored retirement savings and IRAs.

The CFPB concludes that student loan debt is becoming a more serious issue among older adults facing retirement. Financial consequences due to co-signing for loans, borrowing for children, and misinterpreting loan terms are the primary complaints received by the CFPB, and they are especially impactful for a population who is already susceptible to financial distress.

STRUGGLING TO MANAGE STUDENT LOAN DEBT AND ACCUMULATE WEALTH

All of the articles in this section focus on the socioeconomic struggles of those who have student loan debt, and debt in general. While most experts agree that obtaining a college education will lead to increased earnings throughout the life course, some are beginning to question the benefit of using student loans as a source of funding due to the negative effects on well-being and wealth accumulation (Elliott & Nam, 2013).

As a result of their student loans, the initial repayment period may be difficult for young adults who are starting out with a lower income, and loan delinquencies and default are becoming increasingly common. This is altering traditional life trajectories, and from an emotional standpoint, adults with student loan debt are expressing lower levels of well-being and life satisfaction (Elliott & Lewis, 2015). Households with higher interest debt, student loans, and other forms of debt are also found to have less accumulated wealth through lower rates of auto and homeownership (Cooper & Wang, 2014), and reduced market participation including stock and bond holdings (Becker & Shabani, 2010). Acquiring fewer assets

throughout the life course is an issue for retirees who may already be living on a strained budget.

Becker, T., & Shabani, R. (2010). Outstanding Debt and the Household Portfolio. *The Review of Financial Studies*, 23(7), 2900-2934.

In their study on household debt and investments, Becker and Shabani suggest that higher interest rates on household debt reduces the return received from assets such as equities. Reduced market participation over time usually leads to lower returns on investment and lower net worth, and between 1985 and 2008 household debt increased twelve-fold, while disposable income only increased seven-fold. Using this information based on mortgage debt specifically, their theory tests predictions for market participation, and they find that households with mortgage debt are 10% less likely to hold stocks and 37% less likely to hold bonds than households without mortgage debt.

One limitation of this study is that it only focuses on mortgage debt, but these same principles could perhaps be applied to student loan debt with similar results. Becker and Shabani do suggest that households with student loan debt are generally more educated and make better financial decisions. Student loans tend to have lower interest rates, so this may not reduce market participation for some borrowers, although their study does confirm that credit card holders do tend to own fewer stocks and bonds.

Even though debt accumulation could lead to reduced market participation, the researchers did note that approximately 6 percent of households with high-interest debt still owned some stocks and bonds. This is interesting, because generally the interest on the debt is

higher than the return from the stocks and bonds. The households are essentially losing money at this point, and this is particularly troubling after accounting for the length of debt repayment. Becker and Shabani calculate this difference, noting that households would save approximately \$60 annually by using their bond holdings to pay off their mortgage and approximately \$80 to pay their credit card debt.

Their theoretical framework for debt repayment and bond participation can certainly be applied to student loan debt, since federal student loans are derived from the 10-year Treasury yield plus a margin. Becker and Shabani even suggest that households may incorporate debt repayment into their investment decisions, but they do acknowledge that this framework is driven by a small percentage of affected households. The low-interest rate environment at the time of this study should also be beneficial to households that decide to refinance their loans, and households may have changed their opinions on risky assets, such as equities, due to the financial crisis. This would allow households to make more payments toward their debts.

Cooper, D., & Wang, J. C. (2014). Student Loan Debt and Economic Outcomes. Current Policy Perspective No. 14-7. *Federal Reserve Bank of Boston*.

This article provides greater insight into economic outcomes of households with student loan debt. It starts by introducing the fact that during the Great Recession, student loan debt continued to rise, while other forms of debt fell. There are many reasons for this, but the Great Recession allowed student loan debt to increase to the levels we see today. Cooper and Wang also note that limited research exists on the household economic impact of student loan

debt, therefore, it is difficult to conclude that students are making the correct decision to incur this debt. They suggest that students may be better off seeking alternative educational programs, although measuring optimal educational investment is difficult to study. Cooper and Wang attempt to analyze this issue by using schooling history, ability, parents, debt, and homeownership status to evaluate the economic impact of student loan debt. They do find a significant outcome, particularly in the 30-40 age group.

Some other characteristics of student debt holders include high delinquency rates, lower homeownership rates, and fewer auto loans. This suggests that student loan debt holders are having trouble accessing other forms of credit. Lower expected incomes after the Great Recession may further enhance these problems.

Cooper and Wang's results show that homeownership rates for households with student loan debt are always lower than their counterparts without debt, with the largest rate gap in the 20-24 age group. They do note that while homeownership may be delayed by student loan debt, it is not necessarily a permanent deterrence. In fact, college graduates with student loan debt, who are 20-29 years old, have approximately the same homeownership rate as graduates of the same age without student loan debt. One potential explanation for these results is that these groups of graduates with student loan debt may have larger overall amounts of debt, they have reduced access to credit, or they may be nervous about borrowing more.

As far as wealth holdings, the Cooper and Wang find that household wealth, relative to income, is significantly lower in households with student loan debt. They find that this is consistent with renters, as well. Renters may be facing reduced wealth due to their student loan debt burden and their inability to save or accumulate assets. Regardless of renting or homeownership, a systematic difference in wealth holding appears to exist, and homeowners

tend to have lower cash holdings due to their debt accumulations. Renters with student loan debt also have higher cash and pre-tax savings, perhaps in order to save for a down payment. Also, overall debt tends to be higher for student loan holders. Their research confirms most of the current literature about student loan debt, but they also introduce the idea that debt servicing costs, including fees, may impact the ability to save.

Elliott, W., & Lewis, M. (2015). Student debt effects on financial well-being: Research and policy implications. *Journal of Economic Surveys*, 29(4), 614-636.

Elliott and Lewis discuss the Great Recession as a turning point for adults no longer trying to achieve economic mobility, or the “American Dream”, but instead looking for financial security, or the ability to simply maintain the status quo. American institutions are placed at the forefront of this change with higher education no longer facilitating the “work hard and be rewarded” mentality. Opportunity is now only provided to economically advantaged students who attend certain universities, while student loan debt potentially erases the educational benefit received by the lower tier of students. While the costs of higher education used to be limited by federal and state funding, individuals are now responsible, and expected, to finance their own education, and the result is less than favorable for those who decided to pay with student loans.

Elliott and Lewis note that post-recession research is now beginning to question the educational rate of return for consumers with student loan debt, with the primary driver being the inability of younger adults to accumulate wealth despite having higher incomes. Adults with student loan debt also experience lower marriage rates, are more likely to express

dissatisfaction with their marriage, and they are less likely to have children. Along with the negative social repercussions, borrowers experience financial stressors such as being less satisfied with their overall financial situation, they perceive less benefit from their education, and initial repayment difficulties may lead to delinquencies, default, and bankruptcies. All of these factors, including much lower credit scores, deter the ability to accumulate assets and wealth.

Wealth generation is the leading influence behind economic mobility, but it is difficult for many adults to manage their student loan debt and simultaneously take positive steps toward improving their net worth. Survey data indicate that 63% of young adults with student loan debt delay making large purchases and may have 63% less net worth than those without student loan debt. In fact, one study finds that households with average student loan debt will experience a wealth loss of over \$200,000 throughout the life course. Much of this is the result of delayed homeownership, and lower levels of home equity, but a lack of retirement savings is also responsible. Several surveys and studies find that households with student loan debt have less retirement savings than households without student loan debt.

Elliott, W., & Nam, I. (2013). Is Student Debt Jeopardizing the Short-Term Financial Health of U.S. Households? *Federal Reserve Bank of St. Louis Review*, 95(5), 405-424.

At the time of this study by Elliott and Nam, approximately 40 percent of younger households have incurred student loan debt and 37 percent of financial aid consisted of student loans. High-income households are just as likely to have student loans, however, low-income households experience a greater impact. Elliott and Nam suggest that student loan debt only

becomes a problem when the borrower faces default, and low-income households again feel a greater impact and are less able to provide assistance to the borrower. Even though student loan debt is a serious issue once the borrower reaches default status, it can still cause problems beforehand. Credit scores, savings, and assets are also impacted by high debt accumulation. Borrowers may turn to deferment or forbearance, however, these are only temporary solutions, and the borrower must qualify for these options. These repayment issues not only impact the student borrower, but they can also affect parents who may have co-signed for the loans. According to the Federal Reserve Bank of New York, about 2.2 million Americans age 60 or older are liable for student loan debt, and that number is increasing.

Elliott and Nam use the life cycle hypothesis in order to analyze the effects of student loans on wealth building. This theory suggests that the impact of student loan debt is minimized throughout the life course due to an increase in earnings and wealth, however, graduates tend to earn very little upon graduation and have to rely on credit even more. This is significant, because recent graduates have been unable to purchase their first homes due to the burden of student loan debt, and approximately 64 percent of wealth comes from home equity. Graduates may not qualify for mortgage loans or be unwilling to accumulate more debt.

Upon analysis of their data, Elliott and Nam discovered that the median net worth for households without student loan debt is approximately three times higher than households with student loan debt. They did note that all households with a four-year college graduate present do benefit from receiving a college degree, and the wealthier households benefit even more. They also found that higher amounts of debt lead to even greater losses in net worth, and households with a four-year college graduate with student loan debt experience a net worth loss of almost \$190,000 compared to households with graduates who have no debt.

Elliot and Nam conclude that even with limitations to their study, including the data being collected during the Great Recession, student loan debt may be negatively impacting the short-term financial health of U.S. households, and it raises questions about student loans as a means to finance higher education.

BORROWING FOR CHILDREN, PARENT PLUS LOANS, AND RETIREMENT

While the previous section discussed how adults can be impacted by their own student loans throughout the life course, this section focuses on the decision to borrow money for a child's education. The loans parents can obtain for their children's education often come with higher interest rates and are less restrictive than the loans students can use for their own education (Todd & DeVaney, 1997). This means they are typically used as a "last resort" payment option, and the loan repayment is often made at the expense of saving for retirement (Riskin, 2018).

The most popular education loan for parents is the Parent Loan to Undergraduate Students, also known as the ParentPLUS loan. This loan is a part of the federal financial aid package, while other sources of funding include private loans, home equity loans, and credit cards (Cha, Weagley, & Reynolds, 2005). Home equity loans are also a popular choice for parents; however, the advantages associated with this type of loan are becoming limited due to rising interest rates and the recent changes to the tax code. Overall, parental borrowing for higher education is an increasingly costly decision that should be carefully considered, particularly for those who are behind in their retirement savings (Loewe & Dempster, 2003).

Cha, K., Weagley, R., & Reynolds, O. (2005). Parental Borrowing for Dependent Children's Higher Education. *Journal of Family and Economic Issues*, 26(3), 299-321.

Cha, Weagley, and Reynolds begin their paper by noting the rising costs of higher education, the household economic value of receiving a college degree, and the increased reliance on student loans. They also note that most parents consider saving for college an important financial goal, and their contribution is directly related to their willingness to borrow, access to other funding sources, and their income.

Parental investment in their children's education is once again directly tied to human capital theory. This theory views a college education as an investment, and the future return from obtaining a college degree must outweigh the current costs of attendance. The theory also assumes rational choice and resource allocation. Resource allocation and choice of funding is dependent upon available family resources, financial aid, and other household characteristics. Middle-income families expect to utilize a combination of grants, loans, student employment, and other funding sources; however, borrowing to pay for college is a decades-old trend.

In the early 2000s, the federal government provided over 70% of financial aid with over 50% coming from student loans. Parent Loans to Undergraduate Students (PLUS) is the largest student loan program for parents, but they also have access to private student loans through numerous financial institutions. The decision to borrow depends on many variables, including parental income and the expenses at a specific institution, but this study found that a little less than 7% of parents borrowed money for their children's education. The parents had significantly greater home equity, but they also faced greater costs, had smaller families, and they were more likely to have their own college educations.

At the time of this study, the tax benefits of using home equity was a significant influence in the parents' decision to borrow for their children's education, and parents may feel more willing to provide assistance to their children if they received it for their own education. The article does not discuss the implications of these factors, but they both may play a significant role in the financial outcomes for parents later in the life course.

Handwerker, E. (2011). Delaying Retirement to Pay for College. *Industrial & Labor Relations Review*, 64(5), 921-948.

The current literature focusing on adult labor supply suggests that temporary spending needs are met by increasing work and reducing spending throughout the life-cycle, and anticipated changes in income have little effect on spending; however, Handwerker suggests that little is known about how anticipated changes in spending affect income streams, or the supply of labor. Specifically, she studied how older parents change their labor supply (continue to work) when they have children attending college.

What she found is that older parents, both men and women, who have children in college, are more likely to be working, less likely to claim they are retired, and less likely to be collecting Social Security retirement benefits. The parents do not appear to increase their earnings or hours worked, but they do remain in the workforce longer than expected. Unfortunately, the results also show that the effect is greater for those who are in a lower socioeconomic status, and the impact is greater for fathers with children who attend college.

Loewe, R. D., & Dempster, K.C. (2003). College planning for parents in crisis. *Journal of Financial Service Professionals*, 57(1), 64-73.

Loewe and Dempster are experienced financial professionals, and they provide a unique practitioner's perspective for parents who are planning for their children's education. They suggest that most parents do not begin saving for their children's education until it is too late, and it is often at the expense of their retirement savings. Their strategy for avoiding the college planning crisis is a three-stage process; saving, spending and recovery.

Parents should start saving early and often, even making dramatic lifestyle changes in order to achieve their goals. At this point, parents should balance their children's college savings with their own retirement goals. Saving too much for college could result in saving too little for retirement, while saving too little could push parents toward borrowing. The spending period begins when the child starts college, and expenses are paid using the accumulated savings and financial aid. Spending for college typically tends to be an emotional decision, rather than one that is rational, and parents may be inclined to spend or borrow more than they initially planned. The recovery period follows next, and is reserved for paying down the remaining college debts and catching up on retirement goals. Parents often underestimate the saving and spending periods and experience significant financial pressure to catch up during the recovery period.

Adults who do not take advantage of financial aid, or start their family later in life, are likely to end up falling into college planning crisis. Disregarding financial aid could result in cash flow gaps that are likely to be filled by increased borrowing or an over-reliance on other savings, such as 401(k)s. This move is highly discouraged by most in the financial planning

industry. Starting a family, or the college planning process, later in life also creates a shorter recovery period. This significantly limits the amount of time to repay debts incurred from the spending period or catch up on retirement savings. Parents are often heading into retirement severely underfunded and must drastically alter their retirement spending plans to make ends meet.

Riskin, R. (2018). Help clients balance retirement and education planning: Remind clients that retirement should take priority over helping their children pay for college. *Journal of Accountancy*, 225(2), 22-26.

Ross Riskin, another financial professional and Certified Public Accountant, identifies borrowing for a child's education as being a significant risk to retirement, and he suggests parents should focus on their retirement savings before committing to funding their children's education. Riskin suggests CPAs should remind their clients that spending on their children's education, before they are financially prepared to do so, could result in the inability to help their children further down the road. Homeownership, weddings, and childcare for their grandchildren are a few of the examples he provides, and tapping into tax-advantaged retirement funds to help pay for college could result in unwanted tax implications, penalties, and the loss of future earnings.

Some recommendations for healthy college planning and retirement decisions include borrowing for college, involving the children in the planning process, realizing the full cost of college, and learning more about the numerous college payment options. Borrowing for college is an option that is more readily available, but Riskin notes that this option should not always

be utilized. Also, involving children in the college planning process can help to educate them by recognizing the overall costs involved with college, financial consequences of their decisions, and developing healthy financial habits related to spending, borrowing, and how their life will be affected. This discussion provides an opportunity for the parents to learn more about college planning process, as well.

Todd, K., & DeVaney, S. (1997). Financial Planning For Retirement By Parents Of College Students. *Journal of Financial Counseling and Planning*, 8(1), 25-32.

At the time of this study, families reported that retirement savings are most important to them, however, confidence in retirement income decreased over time. This remains a recurring theme for families, and most believe that their retirement income is dependent on saving behavior, even though their saving rates are low. A shift from employer-sponsored defined benefits plans to defined contribution plans is partially to blame, but increased medical and educational expenses also factor into reduced retirement savings.

Retirement planning is a very broad process, including how much to spend, how to stay occupied, and where to live. Families also perceive their retirement situations very differently, which may be a reflection of their saving decisions. College planning is increasingly becoming part of this process, with average tuition skyrocketing 234% over a 15-year period from 1980-1995. During this same time period, median incomes only increased by 82%. This led many families to borrow to cover the costs of rising tuition, however, a positive correlation exists between financial assets and parental contributions for college. Todd and DeVaney notes other literature suggesting that parents should start saving for college 15 years in advance and to start

investing in equities in order to take advantage of higher returns and growth, but only 28% of parents find college savings important. Using this information, Todd and DeVaney seek to evaluate satisfaction with retirement savings and the amount of retirement savings families use to pay for college.

Their study found that the majority of participants were similarly educated with higher incomes, but at least half were dissatisfied with their retirement savings and one-quarter used retirement savings to pay for college expenses. Naturally, parents with lower incomes struggled with saving for college, and families with pensions have increased financial planning satisfaction.

Suggestions provided by this article include seeking financial advice for college planning, shopping for good loan rates, and having the parents borrow without foregoing retirement savings. The latter points to home equity loans as a possible alternative. Home equity loans tend to have lower interest rates, particularly in the current economic environment, and the interest may be tax deductible for those who itemize their deductions. Also, federal student loans generally provide better interest rates and repayment terms than private student loans, although Parent PLUS loans tend to have higher interest rates than undergraduate loans. This is important, because it may be in the parents' best interest to have the student borrow and help them make the payments, as long as they remain under the annual gift tax threshold. This would allow the family to save money on the borrowing end and use the cost savings to increase their retirement contributions.

CONCLUSIONS

Several themes emerged throughout this research on older adults, student loan debt, and retirement. The Consumer Financial Protection Bureau concluded that an increasing number of older adults are carrying student loan debt into retirement, and it is impacting their net worth, financial stability, and overall well-being (U.S. CFPB, 2017). Delinquency, default, and Social Security offsets are continually trending in a negative direction despite ten years of favorable economic conditions, and the debt is usually incurred to fill gaps due to under saving, overspending, and limited financial literacy regarding financial aid options and education planning (Loewe & Dempster, 2003).

IMPLICATIONS AND FUTURE RESEARCH

This combination of factors is leading older adults to delay their retirement or take drastic measures to reduce spending and improve their financial situation, such as forgo medical treatment or take increased distributions from their employer-sponsored retirement plans and IRAs (U.S. CFPB, 2017). While higher education should never be discouraged, the findings presented in this review indicate that use of ParentPLUS Loans, and other forms of borrowing for a child's education, should be used as a last resort for college expense payment.

Many funding options exist for higher education expenses, while still allowing parents to be financially supportive of their children and focus on their retirement at the same time. Future research could be useful in identifying the opportunity costs involved with borrowing for a child's education, specifically through the use of ParentPLUS Loans, and the how the borrowing impacts the parents' savings and retirement.

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APPENDIX A. RESEARCH BRIEF

How Does Student Loan Debt Affect Retirement for Older Adults?

By Ryan A. Stuart
Iowa State University

Snapshot of Older Consumers and Student Loan Debt*

- The share of older student loan borrowers increased from 2.7% to 6.4%, and the average loan balance increased from \$12,100 to \$23,500.
- Older student loan borrowers are also more likely to owe mortgage, credit card, and auto loan debt.
- 73% report that their student loan debt is owed for a child's and/or grandchild's education.
- The student loan delinquency rate for older adults increased from 7.4% to 12.5%.
- Nearly 40% of adults age 65 and older are in default on their student loans.
- The number of older adults having their Social Security benefits offset increased from 8,700 to 40,000 borrowers.
- 39% of older student loan borrowers reported skipping medical care compared to 25% without loans.

* Data was collected from various government sources in between 2005 and 2015 (U.S. CFPB, 2017).

Introduction

Considerable media attention is paid to the overall amount of student loan debt held by consumers in the United States. The impact of student loan debt is far-reaching, and it is affecting an unlikely population: older adults.

Existing research notes that older adults typically struggle with their finances due to high medical expenses and the lack of retirement savings, and more recent studies are finding that some older adults also carry significant amounts of student loan debt into retirement (U.S. Consumer Financial Protection Bureau, 2017).

Due to this emerging issue, many older Americans are now worried about their student loan balances at an age when they should be focusing on their 401(k)s and preparing for other expenses in retirement. The average outstanding student loan balance for Americans age 60 and older nearly doubled from 2005 to 2015, while the total number of older borrowers quadrupled during the same period of time (U.S. CFPB, 2017).

The most recent data from the U.S. Department of Education (Federal Student Aid, 2018a) and the Federal Reserve (2019)

places current overall outstanding student loan debt at approximately \$1.6 trillion. This number includes federal student loans, private student loans, and other forms of debt used to fund higher education.

Of the \$1.5 trillion in federal student loan debt identified by the U.S. Department of Education, 7.9 million borrowers age 50 and older have outstanding student loan balances at nearly \$284.6 billion, or an average balance of approximately \$36,000 per borrower (Federal Student Aid, 2018a). This is a significant amount of debt for those who are navigating retirement.

The Consumer Financial Protection Bureau, an agency created to protect consumer financial interests, also concluded in a recent study that student loan debt is becoming a more serious issue among older adults facing retirement. The resulting financial consequences from co-signing on student loans and borrowing for children, and grandchildren, are two of the primary complaints received by the CFPB, and they are especially impactful for a population who is already susceptible to financial distress (U.S. CFPB, 2017).

Adults Struggling with Student Loan Debt

There are many reasons why older adults are struggling with student loan debt, but one major influence responsible for the surge is the Great Recession. During the recession, student loan debt continued to increase, as younger and older adults returned to college in droves, while the use of other forms of debt declined (Cooper & Wang, 2014).

This led to many post-recession studies focusing on the subject, and several are beginning to question the socioeconomic benefits of student loans. They are finding that adults with student loan debt are experiencing lower marriage rates, are more likely to express dissatisfaction with their existing marriage, and they are less likely to have children.

Along with the negative social repercussions, borrowers experience financial stressors such as being less satisfied with their overall financial situation, they perceive less benefit from their education, and initial repayment difficulties may lead to delinquencies, default, and bankruptcies. All of these factors, including much lower credit scores, impact the ability to accumulate assets and wealth for later stages of the life course and retirement (Elliott & Lewis, 2015).

The inability to pay for these loans is also becoming more apparent. The number of older adults who are delinquent on their student loans increased by 5.1% from 2005 to 2012, and a growing number are having their Social Security benefits offset to help with repayment. Receiving less from Social Security is a problem for a group who already reports skipping necessary medical attention and having less savings in their employer-sponsored retirement plans and IRAs (U.S. CFPB, 2017).

The Impact on Savings and Net Worth

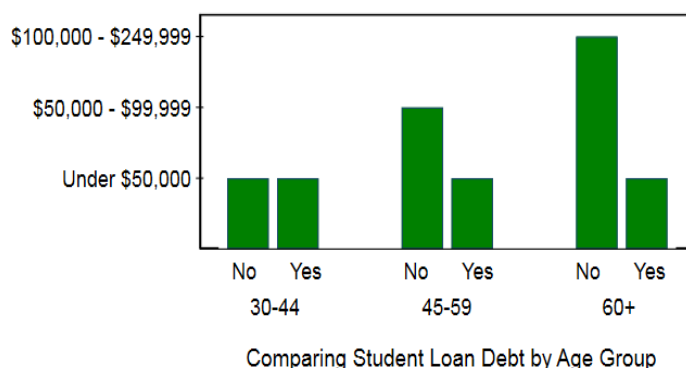
Researchers are also questioning the educational rate of return of student loans, especially related to the inability of younger adults to accumulate wealth despite receiving higher incomes from their education. A 2013 study from the Federal

Reserve Bank of St. Louis discovered that student loan borrowers already face a disadvantage with wealth accumulation as households without student loan debt are likely to have a net worth that is nearly three times higher than households with student loan debt. The study also found that higher amounts of debt lead to even more significant losses in net worth, and households that have a four-year college graduate with student loan debt experience a net worth loss of almost \$190,000 compared to households who have graduates with no student loan debt (Elliott & Nam, 2013).

Data from a more recent Federal Reserve Study, the 2017 Survey of Household Economics and Decisionmaking (SHED), points to similar results. The following graph shows the median amount of household savings and investments, for three adult age groups, with and without student loan debt.

Median Household Savings and Investments

Data Source: https://www.federalreserve.gov/consumerscommunities/shed_data.htm



The SHED data indicates that the median amount of household savings and investments remains under \$50,000 for all adults over the age of 30 who also have student loan debt. At the same time, the median amount of household savings and investments for adults without student loan debt gradually increases as they age, starting at under \$50,000 for adults age 30-44 and ending in the \$100,000 - \$249,000 range for adults age 60 and older. The possible savings and investments loss ranges anywhere from \$50,000 to nearly \$250,000.

ParentPLUS Loans

Due to concern regarding the financial security of older Americans approaching retirement, the U.S. Senate's Special Committee on Aging tasked the U.S. Government Accountability Office with studying the issues older adults are facing with their student loan debt. The GAO identified three main reasons why older adults heading into retirement still maintain high balances on their student loans, and one of those is to pay for their children's education (Jeszcek, 2014).

The primary source of parental borrowing for a child's education is the Parent Loan to Undergraduate Students, or ParentPLUS loan. These loans remain a small percentage of the overall student loan portfolio; however, they do have the potential to significantly impact even the best retirement plan.

As of September 30, 2018, 3.6 million borrowers had outstanding ParentPLUS loan balances totaling \$89.9 billion, or an average of approximately \$25,000 per borrower (Federal Student Aid, 2018a).

Portfolio by Loan Type

Includes outstanding principal and interest balances
Data Source: National Student Loan Data System (NSLDS)

Federal Fiscal Year		Parent PLUS	
		Dollars Outstanding (in billions)	Recipients (in millions)
2018	Q1	\$83.7	3.5
2018	Q2	\$87.7	3.5
2018	Q3	\$86.7	3.4
2018	Q4	\$89.9	3.6

This may not seem like a significant amount of debt, but ParentPLUS loans carry an interest rate that is generally 2.55% higher than Direct Loans for undergraduate students. The current interest rate on a ParentPLUS loan disbursed prior to July 1, 2019 is 7.6%, while the interest rate for a Direct Loan is 5.05% (Federal Student Aid, 2018b). To put this into perspective, the next section will discuss the cost of borrowing for a child's education and how it could impact the retirement of older adults.

Should the Parents or Children Borrow?

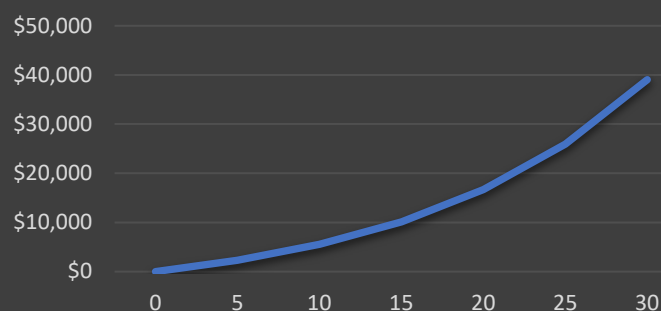
Parents may be inclined to borrow money for their children's education for many reasons, and it is often an emotional decision rather than a rational one. This includes spending more money than initially planned (Loewe, 2003).

Ross Riskin, a Certified Public Accountant, (2018) identifies borrowing for a child's education as a significant risk to retirement, and he suggests parents should focus on their retirement savings before committing to funding their children's education. Unprepared parents who share the financial burden with their children will limit the amount of time their investments can grow in tax-deferred accounts (Todd & DeVaney, 1997). The following example will demonstrate the value of combining education and retirement planning.

Assuming the average \$25,000 ParentPLUS loan balance, a standard 10-year repayment plan, and a 7.6% interest rate, the monthly payment for a ParentPLUS loan is \$298.06. This is compared to \$265.78 for an undergraduate Direct Loan with the same balance, repayment plan, and a 5.05% interest rate.

If it is necessary to borrow money to pay for college, the use of undergraduate Direct Loans could result in approximately \$3,800 in cost savings over the life of the loan. Parents will still have the ability to help their children with the payment while saving the extra \$32/month for retirement.

Estimated Future Value of Saving \$32/Month



<http://www.zenwealth.com/businessfinanceonline/TVM/TVMCalculator.html>

Conclusion

Several themes emerged throughout the research on older adults, student loan debt, and retirement. Primarily, the Consumer Financial Protection Bureau concluded that an increasing number of older adults are carrying student loan debt into retirement, and it is impacting their net worth, financial stability, and overall well-being (U.S. CFPB, 2017).

Delinquency, default, and Social Security offsets are continually trending in a negative direction despite ten years of favorable economic conditions, and the debt was usually incurred to fill gaps due to under saving, overspending, and limited financial literacy regarding financial aid options and education planning (Loewe & Dempster, 2003). This combination of factors is leading older adults to delay their retirement or take drastic measures to reduce spending and improve their financial

situation, such as forgo medical treatment or take increased distributions from their employer-sponsored retirement plans and IRAs (U.S. CFPB, 2017).

While higher education should never be discouraged, the findings in this research brief indicate that the use of ParentPLUS Loans, and other forms of borrowing for a child's education, should be used as a last resort for college expense payment. Many funding options exist for higher education expenses, while still allowing parents to be financially supportive of their children and focus on their retirement at the same time.

Future research could be useful in identifying the opportunity costs involved with borrowing for a child's education, specifically through the use of ParentPLUS Loans, and how the borrowing impacts the parents' savings and retirement.

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